

Prepared for
Bay County Employees' Retirement System
April 23, 2015

Representing Baird Advisors

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Section 1

Firm Overview

Overview of Baird

Baird has been helping clients achieve their asset management, investment banking and private equity goals for over 90 years.

1919

Founded in Milwaukee

2004

Baird becomes employee-owned

\$1 billion

Revenue

3,100

Employees

1,800

Employee shareholders

12

Number of consecutive years Baird has been recognized as one of the FORTUNE 100 Best Companies to Work For®

1

Pension & Investments recognized Best Places to Work in Money Management for third consecutive year (50-99 employees)

1

Ranked No. 1 "most trusted" research in Greenwich Associates survey 2004-2014

A Comprehensive Financial Services Firm



Baird Advisors Highlights

- Dedicated team focused on fixed income
- Over **\$32.3 billion** of assets under management as of March 31, 2015
- Disciplined, research driven approach
- Focus on superior customer service

Baird's International Presence

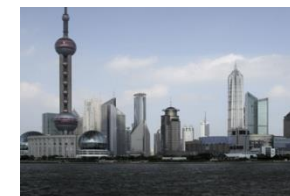
United States



Europe



Asia



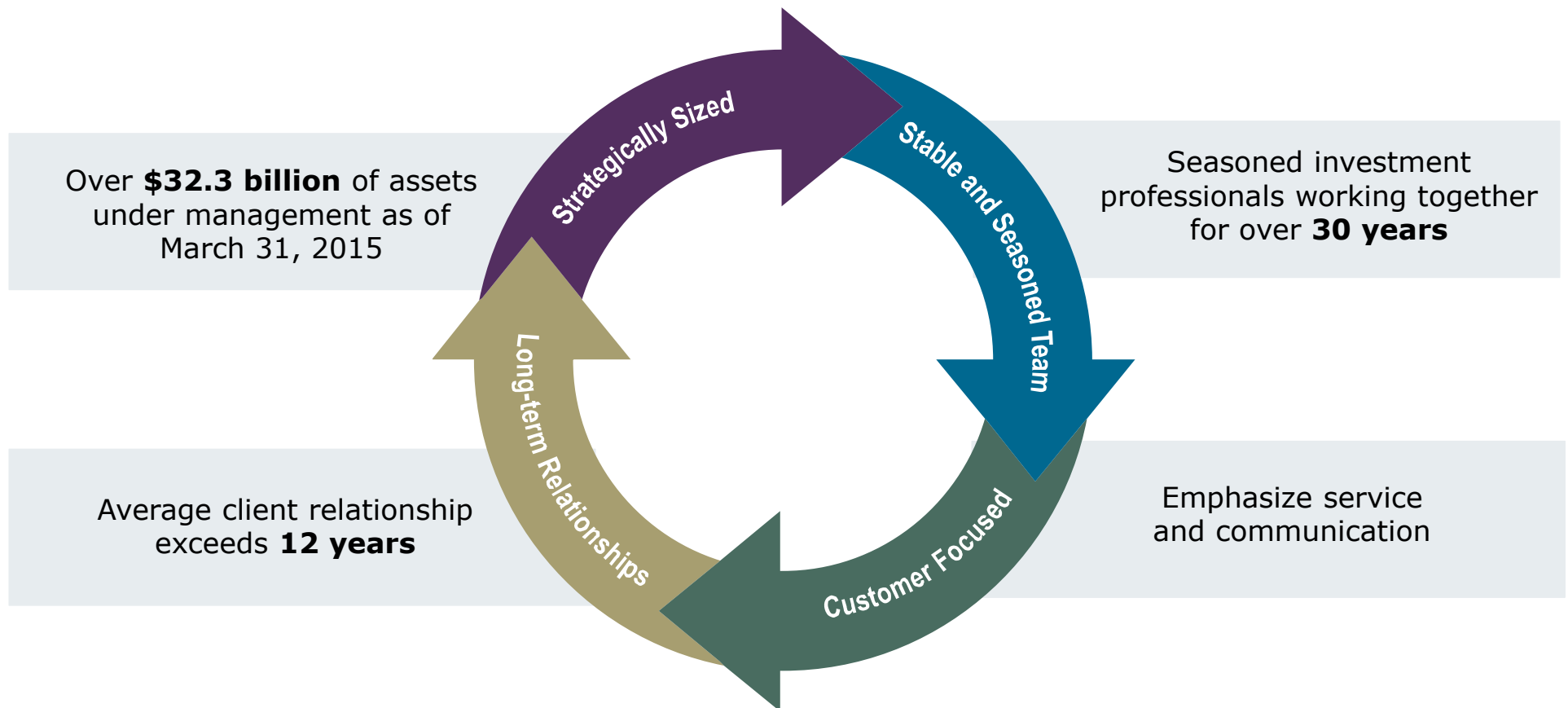
Milwaukee Chicago New York London Frankfurt Hamburg Hong Kong San Francisco Palo Alto
Atlanta Boston Philadelphia Tampa Washington, D.C. Beijing Shanghai Stamford Charlotte

Greenwich Associates U.S. Equity Investors – Small/Mid-Cap Funds, 2004-2013. Surveys conducted with 94 U.S. small-cap and mid-cap fund managers. Rankings based on top 10 research firms in survey. Baird ranked No. 1 for "Most Trusted" Research and No. 1 for "Top Five" Research Firms for Importance. Baird and its operating affiliates have offices in the United States, Europe and Asia. Robert W. Baird Ltd. and Baird Capital Partners Europe are authorized and regulated in the UK by the Financial Conduct Authority.

BAIRD

Overview of Baird Advisors

Experienced team with a track record of consistent results in high quality fixed income management



Baird Advisors - Representative Clients

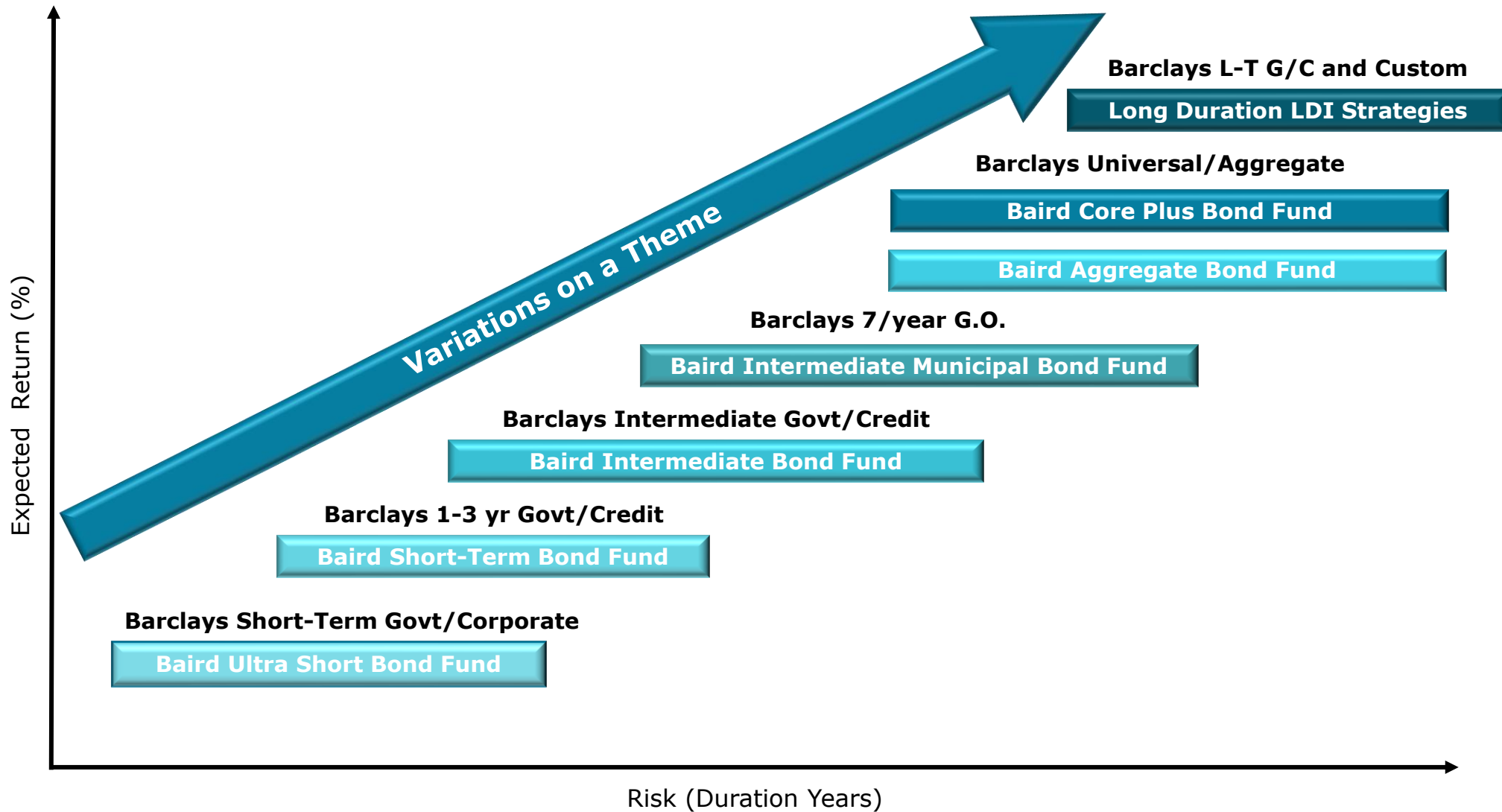
Client relationships average 12 years



Note: The clients listed above represent various industry groups and geographic locations and were not selected based upon performance. Their appearance is not an indication of approval or disapproval of the investment management services provided.

Structured, Risk-controlled Portfolio Management

Consistent approach applied across risk spectrum



Baird Bond Funds

Total Net Returns as of March 31, 2015

	2015 YTD	Annualized					Since Inception Lipper Rank & Percentile
		1 Year	3 Year	5 Year	10 Year	Since Inception ¹	
Baird Core Plus Bond Fund - Institutional	1.80%	6.05%	4.35%	5.82%	6.02%	6.55%	8 of 62
Barclays Universal Bond Index	1.73%	5.32%	3.50%	4.75%	5.15%	5.74%	13%
Baird Aggregate Bond Fund - Institutional	1.79%	6.30%	4.50%	5.74%	5.29%	6.04%	15 of 166
Barclays Aggregate Index	1.61%	5.72%	3.11%	4.41%	4.92%	5.52%	9%
Baird Intermediate Bond Fund - Institutional	1.61%	3.80%	3.23%	4.56%	4.91%	5.47%	61 of 166
Barclays Intermediate Govt/Credit Index	1.45%	3.58%	2.32%	3.52%	4.34%	4.97%	37%
Baird Short-Term Bond Fund - Institutional	0.79%	1.69%	2.05%	2.56%	3.31%	3.11%	34 of 140
Barclays 1-3 Year Govt/Credit Index	0.59%	1.12%	0.97%	1.35%	2.94%	2.76%	25%
Baird Ultra Short Bond Fund - Institutional	0.27%	0.70%	n/a	n/a	n/a	1.19%	7 of 114
Barclays Short-Term Govt/Corporate Index	0.09%	0.20%	n/a	n/a	n/a	0.22%	7%
Baird Intermediate Muni Bond Fund - Institutional	0.66%	3.52%	2.35%	3.52%	4.14%	4.53%	14 of 70
Barclays 7 Year G.O. Index	1.06%	4.78%	3.15%	4.58%	4.81%	4.89%	20%

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment in the fund will fluctuate so that an investor's shares when redeemed, may be worth more or less than their original cost. The funds' current performance may be lower or higher than the performance data quoted. For performance current to the most recent month-end, please visit www.bairdfunds.com.

Expense Ratio for the Institutional Share Classes is 0.30%; for the Investor Share Classes is 0.55%

Returns shown include the reinvestment of all dividends and capital gains.

¹ The Baird Core Plus, Aggregate and Intermediate Bond Funds Since Inception net returns are based on performance from September 30, 2000 through March 31, 2015. The Baird Intermediate Municipal Bond Fund Since Inception net return is based on performance from March 31, 2001 through March 31, 2015. The Baird Short-Term Bond Fund Since Inception net return is based on performance from August 31, 2004 through March 31, 2015. The Baird Ultra Short Bond Fund Since Inception net return is based on performance from December 31, 2013 through March 31, 2015.

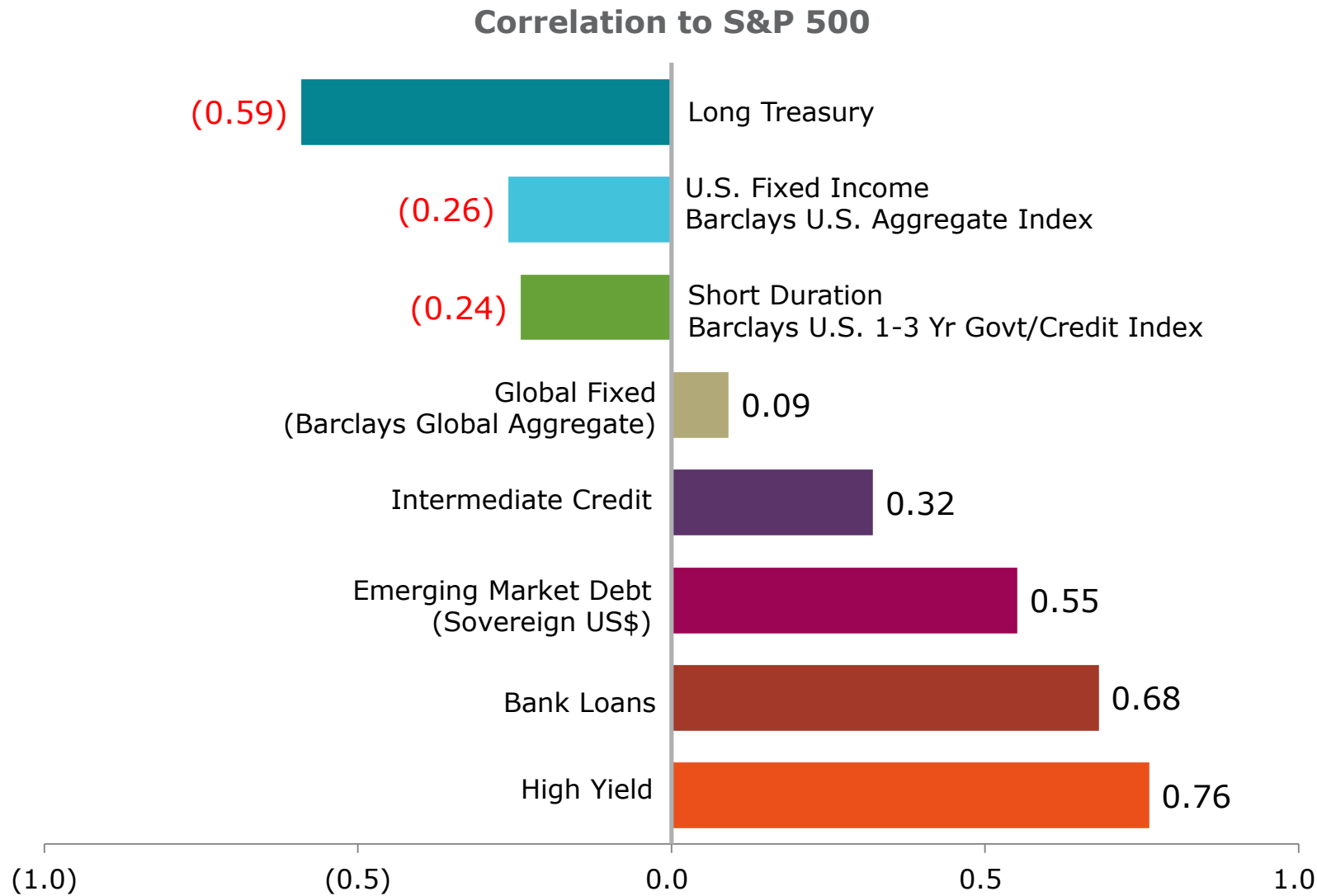
Consistency is Key

Baird Bond Funds – Institutional Shares

Percentage of Time the Funds Outperform their Morningstar Category Average					
Rolling Time Periods	Baird Short-Term Bond	Baird Intermediate Bond	Baird Aggregate Bond	Baird Core Plus Bond	Baird Intermediate Muni Bond
1 Year	90 %	58 %	94 %	90 %	57 %
2 Year	94 %	70 %	95 %	93 %	50 %
3 Year	99 %	76 %	99 %	100 %	59 %
5 Year	100 %	84 %	100 %	100 %	82 %

Source: Morningstar Direct as of March 31, 2015
 Performance numbers used are through each month end period from each fund's inception date.
 All supporting information available upon request.
 Past performance does not guarantee future results.

Diversification Benefits of High Quality Bonds



Investment Philosophy & Process:

A Two-Fold Approach

Step 1: Structure Portfolio to Achieve Return of the Benchmark

Step 2

- | | |
|---|---|
| <ul style="list-style-type: none"> Complete Understanding of the Benchmark | <ul style="list-style-type: none"> Quantify duration, sector and sub sector weightings Evaluate pricing, turnover and projected changes to benchmarks Purchase only U.S. dollar denominated securities |
| <ul style="list-style-type: none"> Remain <i>Duration Neutral</i> to Control Portfolio Risk | <ul style="list-style-type: none"> Precisely match duration to index at all times Immediately adjust portfolio as contributions and withdrawals occur Rebalance at month-end to match benchmark changes |
| <ul style="list-style-type: none"> Maintain Strict Adherence to Portfolio Guidelines | <ul style="list-style-type: none"> Continuously monitor risk-control measures Use “what-if” modeling techniques Compliance systems for all portfolio trades |
| <ul style="list-style-type: none"> Emphasis on Security Structure/Credit Research | <ul style="list-style-type: none"> Evaluate specific security covenants, cash flows and liquidity concerns Assess company financials and management Consider prospects for sector and position in industry |

Investment Philosophy & Process:

A Two-Fold Approach

Step 1

Step 2: Add Incremental Value through Bottom-Up, Risk Controlled Process

**Consistent, Competitive
Performance over
Complete Market Cycles**

Sources of Added Value:

- | | |
|----------------------------------|--|
| ▪ Yield Curve Positioning | <ul style="list-style-type: none"> ▪ Optimize yield and “roll down” ▪ Analyze yield curve on a continual basis |
| ▪ Sector Allocation | <ul style="list-style-type: none"> ▪ Evolve sector allocations around long-term biases ▪ Focus on relative value ▪ Yield spreads and underlying risks change constantly |
| ▪ Security Selection | <ul style="list-style-type: none"> ▪ Structure ▪ Attributes ▪ Liquidity |
| ▪ Competitive Execution | <ul style="list-style-type: none"> ▪ Capitalize on market inefficiencies ▪ Receive timely market information ▪ Utilize long standing dealer relationships |

We seek to consistently add 15-50 basis points of incremental return

Research

Internal Research and Security Selection are the primary drivers of incremental return

Internal Expertise: Identifying Value from the Bottom Up

Yield Curve Positioning

- Optimize yield
- Search for roll-down opportunities
- Maintain neutral duration

Mortgages/ABS

- Analyze both structure and collateral
- Prefer senior secured with limited cash flow timing risk, lower LTV
- Top-tier originators and servicers

Corporate Credit

- Look at specific issues by structure
- Review issuers by fundamentals, management and benchmark weighting
- Consider sector trends, regulatory environment and benchmark weightings

External Tools:

- **Interactive Data BondEdge:** Portfolio & benchmark analysis, guideline compliance
- **Barclays Live:** Benchmark analysis
- **Bloomberg:** Security analysis, company research
- **MarketAxess:** Corporate trading platform and TRACE data market monitor
- **TradeWeb:** Treasury and Agency trading platform, historical curve information
- **Intex Solutions and Bond Studio:** Residential and commercial loan analysis
- **Yield Book:** Option-adjusted spread (OAS) and scenario analysis
- **CreditSights:** Independent credit research from a team of highly ranked analysts
- **Access to Baird equity and credit analysts**
- **Access to other Wall Street leading fixed income and equity research**

Section 2

Market Update

Current Environment & Outlook

- **U.S. Economy:** Modest acceleration continues though growth remains moderate given ongoing headwinds
- **Inflation:** Wages remain benign; consumer inflation well below Fed's 2% target on lower oil prices
- **Fed Policy:** Focus on timing and path for rate increases
- **Fiscal Policy:** Deficits have improved; limited progress expected by Congress
- **Positive Developments:** Lower oil prices a net positive for U.S. and global economy
- **Risk Environment:** Remains elevated as "risk mix" continues to shift
 - Weak growth and disinflation/deflation concerns outside U.S., especially Eurozone and China
 - Unprecedented divergence in global central bank policy impacting currencies and capital flows
 - Geopolitical "hot spots"; Russia/Ukraine, Middle East, Greece ...
 - Stress in oil export countries like Russia and potential contagion risk
 - Financial stability concerns; "reaching for yield"

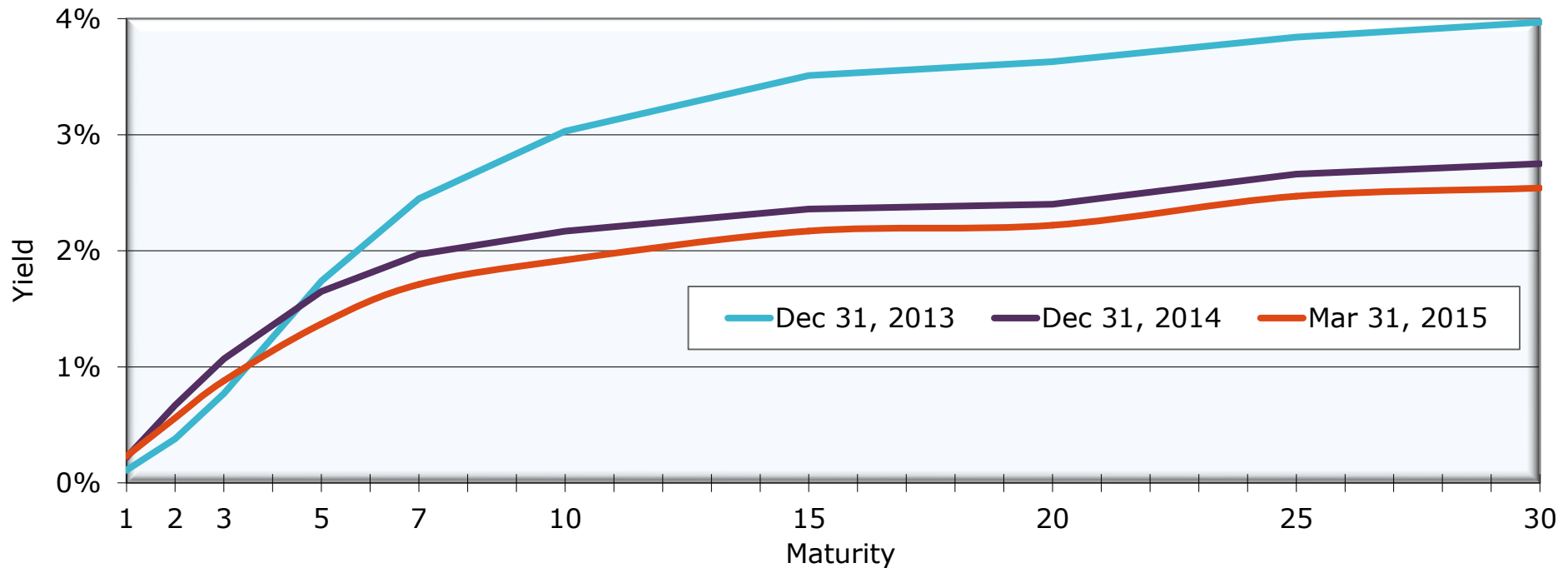
EM Countries No Longer Driving Global Growth

U.S. Growth Likely Faster than EMs in 2015



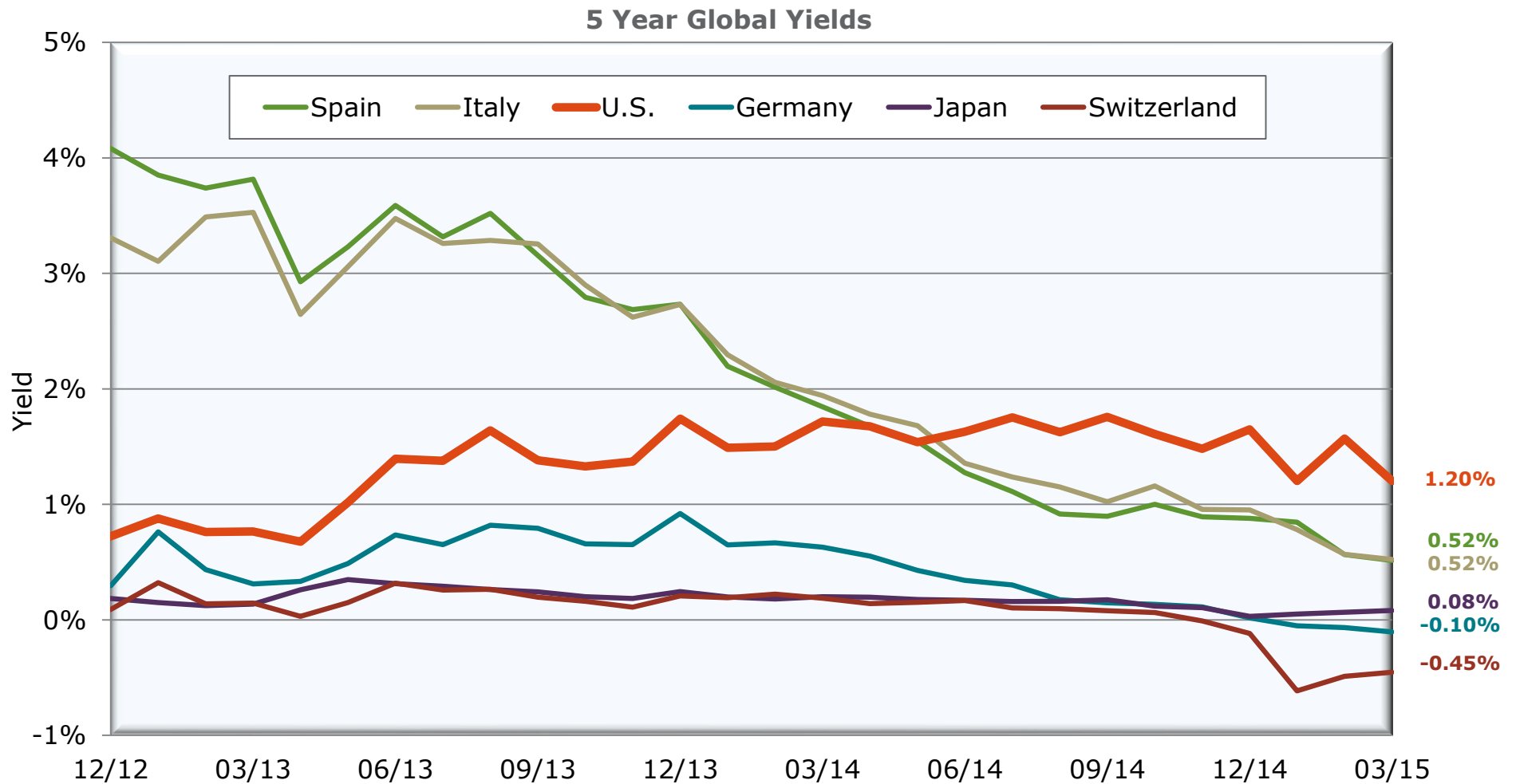
Treasury Yields Fall Defying Consensus

Yield Curve Continues to Flatten; Approaching Long-Term Average Slope



Maturity	December 31, 2013	December 31, 2014	March 31, 2015	YTD Change
1	0.11%	0.22%	0.23%	+0.01%
2	0.38%	0.67%	0.56%	-0.11%
3	0.77%	1.07%	0.88%	-0.19%
5	1.74%	1.65%	1.37%	-0.28%
7	2.45%	1.97%	1.71%	-0.26%
10	3.03%	2.17%	1.92%	-0.25%
30	3.97%	2.75%	2.54%	-0.21%

U.S. Treasuries Attractive to Global Investors



Spreads Mixed in 2014; Modestly Tighter to Start 2015

Option-Adjusted Spreads (bps)							
	6/30/07	12/31/08	12/31/13	12/31/14	3/31/15	YTD Change	10 yr Avg OAS
U.S. Aggregate Index	53	213	45	48	46	-2	71
U.S. Agency (non-mortgage) Sector	34	93	17	16	17	1	33
Mortgage and ABS Sectors							
U.S. Agency Pass-Throughs	65	145	34	27	20	-7	56
Asset-Backed Securities	57	955	55	58	62	4	141
CMBS	82	1010	126	98	95	-3	252
Corporate Sectors							
U.S. Investment Grade	97	555	114	131	129	-2	176
Industrial	104	500	114	140	136	-4	160
Utility	100	537	125	119	121	2	165
Financial Institutions	88	629	109	117	118	1	204
U.S. High Yield	292	1669	382	483	466	-17	568

Adding Value Through Security Selection

Senior Class Agency CMBS Attractive Versus Agency Pass-Throughs & Debentures

FHMS K006-A2 (4.6 year average life)

1.7% yield (+44 bps over comparable Treasury)

\$876 million tranche size

Buy Rationale:

- Senior in the capital structure (20% subordination and FHLMC guarantee)
- 98% of loans require defeasance with U.S. Treasuries for early prepayment
- Very liquid asset class
- Attractive valuation versus Agency Pass-Throughs and Agency Debentures
- Fundamentals remain strong:
 - 1.6x Debt Service Coverage Ratio (DSCR)
 - 61% Loan-to-Value (LTV)
 - Conduit structure – well diversified with 67 loans across 27 states

Section 3

Update on Bay County Employees' Retirement System

Risk Controls in Portfolio Construction



Duration neutral to benchmark



U.S. Treasury and Government Agency Securities

- Emphasized for long duration exposures
- Used to match duration



Credit Securities

- Limited credit exposure in more volatile sectors with continuous review of credit allocation
- Focus on financial industry with higher priority given to credit rating
- Diversification increases as quality decreases



Mortgage-Backed and Asset-Backed Securities

- Focus on fixed-rate collateral vs. ARMs
- Safety of senior tranches if not U.S. Government Guaranteed
- Subject to ongoing stress-testing



Cash Bonds

- No foreign currency
- No derivatives
- No leverage



Ongoing Portfolio Monitoring

- Continuous review of portfolios for adherence to stated guidelines and objectives

Risk control is the foundation of our investment discipline

Investment Outlook

- **Portfolio positioned to modestly benefit from continued flattening of the yield curve**
 - Duration neutral overall
 - Modest underweight to front end of yield curve through use of floating rate securities
 - Continue to emphasize securities with attractive “rolldown”
- **Portfolio positioned to benefit from spread sector outperformance**
 - Maintain nominal underweight to U.S. Treasury sector
 - Opportunities across spread sectors more selective
- **Continued Focus on Risk Control**
 - Emphasize diversification
 - Maintain coupon advantage
 - Use of floating rate securities
- **Experienced team and risk controlled process key to long-term success**

Bay County Employees' Retirement System

Summary Investment Objectives and Portfolio Guidelines

Investment Objective

The investment objective of the account is income generation and capital preservation.

Custom performance benchmark

A custom index comprised of 50% Barclays Government Index and 50% Barclays Mortgage Index plus 30 basis points.

Performance objective

Outperform benchmark net of fees over complete market cycle (3-5 year period).

Primary Investment Focus

- Permitted investments include U.S. Government and Government agency issues and U.S. Government agency mortgage-backed securities.
- Investment in interest only (IO's) and principal only (PO's) mortgage securities and other structures incorporating leverage is prohibited.
- The average duration of the portfolio will be maintained within +/- 20% of the duration of the custom benchmark.
- The account is intended to be fully invested. Residual cash will be invested in custodian's short-term investment fund (STIF) account.
- Manager will seek to maintain appropriate portfolio diversification.
- Manager will provide quarterly written portfolio review and timely notification of all significant portfolio and manager organizational issues. Manager shall meet with the Trustees at least annually.

Bay County Employees' Retirement System

Portfolio Characteristics as of March 31, 2015

	Nominal Weighted Composition			
	Portfolio	Customized Benchmark		
Yield to Maturity	1.72%	1.82%		
Average Coupon	3.51%	2.95%		
Duration	4.55 years	4.55 years		
Average Maturity	5.71 years	6.44 years		
			Duration Weighted Composition	
			Portfolio	Customized Benchmark
Quality Breakdown				
U.S. Treasury	32%	46%	58%	58%
U.S. Govt Agency	64	54	42	42
Aaa	4	0	0	0
Aa	0	0	0	0
A	0	0	0	0
Baa	0	0	0	0
Below Baa	0	0	0	0
	100%	100%	100%	100%
Sector Breakdown				
U.S. Treasury	32%	46%	58%	58%
U.S. Govt Agency Debentures	1	4	2	3
Agency Pass-Throughs	39	50	26	39
Agency CMOs	5	0	3	0
Agency CMBS	19	0	11	0
Cash	4	0	0	0
	100%	100%	100%	100%
Number of Issues	88	1,311		
Market Value	\$25,849,611			

Bay County Employees' Retirement System

Gross Returns as of March 31, 2015

	First Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception (April 2006)
Portfolio Gross of Fees	1.49%	5.72%	2.58%	3.89%	4.41%	5.11%
Customized Benchmark	1.34%	5.38%	2.44%	3.72%	4.09%	4.94%

The performance is presented on a cumulative compound and annualized basis and does not reflect the deduction of investment advisory fees. Return would be reduced by advisory fee and other fees such as custodial expenses. The maximum fee found in Baird Advisors form ADV is 30 basis points. All returns are calculated on a time weighted, total return basis. The results shown should not be considered representative of future investment returns. The 50% Barclays Government & 50% Barclays MBS Index is an unmanaged portfolio of specific securities. The portfolio does not invest in all the securities traded in the index. Direct investment in the index is not available. Client should review all account statements provided by its custodian and compare those account statements to any account statement provided by Baird Advisors. Baird Advisors relies on securities valuations provided by client's custodian for purposes of performance reports.

The Baird Advisors Brochure, which serves as a substitute for Form ADV Part II, is available upon request.

Bay County Employees' Retirement System

	Fixed Income Portfolio Gross of Fees	Customized Benchmark
2006 (Apr-Dec)	5.04%	4.85%
2007	7.20%	7.78%
2008	9.13%	10.36%
2009	3.72%	1.79%
2010	5.63%	5.46%
2011	7.91%	7.62%
2012	3.05%	2.32%
2013	-2.59%	-2.00%
2014	5.79%	5.50%
2015 1st Qtr	1.49%	1.34%
Since Inception		
Cumulative Return	56.57%	54.42%
Annualized Return	5.11%	4.94%

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Bay County Employees' Retirement System

	Fixed Income Portfolio Net of Fees	Customized Benchmark
2006 (Apr-Dec)	4.80%	4.85%
2007	6.89%	7.78%
2008	8.81%	10.36%
2009	3.41%	1.79%
2010	5.31%	5.46%
2011	7.59%	7.62%
2012	2.74%	2.32%
2013	-2.88%	-2.00%
2014	5.47%	5.50%
2015 1st Qtr	1.42%	1.34%
Since Inception		
Cumulative Return	52.43%	54.42%
Annualized Return	4.79%	4.94%

The performance is presented on a cumulative basis. All returns are calculated on a time weighted, total return basis. The results shown should not be considered representative of future investment returns. The 50% Barclays Government & 50% Barclays MBS Index is an unmanaged portfolio of specific securities. The portfolio does not invest in all the securities traded in the index. Direct investment in the index is not available. Client should review all account statements provided by its custodian and compare those account statements to any account statement provided by Baird Advisors. Baird Advisors relies on securities valuations provided by client's custodian for purposes of performance reports.

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Benefits for Bay County Employees' Retirement System

- Long-term relationships focused on client and direct communication
- Experienced management team implementing proven investment discipline
 - Structured, risk controlled process
 - No derivatives, no non-\$ currency exposure, no leverage
 - Focus on ***bottom-up*** added value from sector allocation and security selection
- Total focus on fixed income management
- Culture and resources key to future success
- Importance of the relationship to Baird Advisors

We believe our team, our entrepreneurial environment and substantial resources enable us to provide our clients with the best possible fixed income investment management services available